

**UNITED STATES OF AMERICA**  
**Before the**  
**OFFICE OF THRIFT SUPERVISION**

In the Matter of	)	
	)	Order No.: WN-09-007
	)	
<b>GATEWAY BANK, A F.S.B.,</b>	)	Effective Date: April 24, 2009
	)	
San Francisco, California	)	
OTS Docket No. 08857	)	
	)	

**ORDER TO CEASE AND DESIST**

**WHEREAS**, Gateway Bank, a F.S.B., San Francisco, California, OTS Docket No. 08857 (Association), by and through its Board of Directors (Board) has executed a Stipulation and Consent to the Issuance of an Order to Cease and Desist (Stipulation); and

**WHEREAS**, the Association, by executing the Stipulation, has consented and agreed to the issuance of this Order to Cease and Desist (Order) by the Office of Thrift Supervision (OTS) pursuant to 12 USC § 1818(b); and

**WHEREAS**, pursuant to delegated authority, the OTS Regional Director for the Western Region (Regional Director), is authorized to issue Orders to Cease and Desist where a savings association has consented to the issuance of an order.

**NOW, THEREFORE, IT IS ORDERED that:**

**I. CEASE AND DESIST**

The Association and its directors, officers, and employees shall cease and desist from any action (alone or with others) for or toward, causing, bringing about, participating in or

counseling or aiding and abetting all unsafe or unsound practices that resulted in the current high level of classified assets and poor earnings.

## **II. CAPITAL**

A. Effective immediately, the Association shall have and maintain a Tier One (Core) Capital Ratio of at least seven percent (7%) and a Total Risk-Based Capital ratio of at least fourteen percent (14%).

B. Effective immediately, the Board shall: (1) review the Association's capital levels at each regular Board meeting; and (2) ensure that Association management regularly assesses the sufficiency of the Association's capital levels relative to the Association's risk profile, including, but not limited to such factors as the level of classified assets, the allowance for loan and lease losses (ALLL), and core earnings. The Board's review of capital adequacy shall be fully detailed in the Board meeting minutes.

## **III. BUSINESS PLAN**

A. Within thirty (30) days, the Board shall review and approve a written comprehensive long-term Business Plan covering at least 2009 through 2011. The Business Plan shall be based upon a comprehensive review of the Association's operations, including the risks and returns of each of its business lines, current and projected capital levels, available resources, and market conditions. At a minimum, the Business Plan shall address or include the following matters or items:

1. A thorough discussion of the Association's existing and future operations and lines of business for the time period covered by the Business Plan;
2. Specific strategies for improving the Association's core earnings and returning the Association's operations to profitability;

3. A detailed analysis of the risks, including concentration risks, attendant to the activities projected in the Business Plan together with a description of the steps to be taken to mitigate and reduce such risks to the Association to levels acceptable to the OTS;

4. Defined strategies for capital preservation and enhancement commensurate with the risk profile of the Association and that ensure compliance with the requirements of Paragraph II.A; and

5. Pro forma balance sheets, income statements and regulatory capital schedules for each quarter of the time period covered by the Business Plan.

B. The Business Plan shall be delivered to OTS for review and non-objection no later than five (5) days after approval by the Board. The Board shall make any changes to the Business Plan required by OTS within fifteen (15) days after receipt. Thereafter, the Board shall adopt the Business Plan and shall ensure that the Association adheres to it. Any request to modify the Business Plan shall be submitted to OTS for review and written non-objection at least thirty (30) days prior to the proposed date to implement any such modification.

#### **IV. ASSET QUALITY**

##### **A. Classified Asset Reduction Plan.**

Within thirty (30) days, the Board shall review and approve a written comprehensive Classified Asset Reduction Plan that will return asset quality to a level satisfactory to OTS. At a minimum, the Classified Asset Reduction Plan shall include:

1. Targets and time frames acceptable to OTS for returning classified assets to thirty-five percent (35%) or less of Tier 1 Capital plus Allowance for Loan and Lease Losses;

2. A description of the manner and methods for reducing the Association's level of classified assets to the targets set therein, including a description of strategies for curing problem loans and disposing of the Association's Real Estate Owned (REO) inventory;

3. Supporting documentation for all assumptions and projections; and
4. The Classified Asset Reduction Plan shall be delivered to OTS for review and non-objection no later than five (5) days after approval by the Board. The Board shall make any changes to the Classified Asset Reduction Plan required by OTS within fifteen (15) days after receipt. Thereafter, the Board shall adopt the Classified Asset Reduction Plan and shall ensure that the Association adheres to it. Any request to modify the Classified Asset Reduction Plan shall be submitted to OTS for review and written non-objection at least thirty (30) days prior to the proposed date to implement any such modification.

**B. Allowance for Loan and Lease Losses (ALLL) Policy.**

1. Within thirty (30) days, the Board shall revise the Association's ALLL Policy to incorporate the methodology revisions discussed in the OTS Report of Examination as of September 2, 2008 (ROE).

2. The revised ALLL Policy shall be delivered to OTS for review and non-objection no later than five (5) days after approval by the Board. The Board shall make any changes to the revised ALLL Policy required by OTS within fifteen (15) days after receipt. Thereafter, the Board shall adopt the revised ALLL Policy and shall ensure that the Association adheres to it and that an adequate level of ALLL is maintained based upon the revised policy.

**V. MANAGEMENT**

- A. Within fifteen (15) days, the Association shall identify and provide OTS with the name and resume of an independent third-party consultant (Consultant) to assess the adequacy of the Association's management resources and structure to support current and projected operations. Upon receipt of non-objection by OTS, the Association shall retain the Consultant.

B. Within sixty (60) days after the date of the Association's engagement of the Consultant, the Consultant shall deliver a final, written report (Report) containing the findings and recommendations of the Consultant to OTS and the Board.

C. Within thirty (30) days of receipt of the Report, the Board shall review and adopt a Management Plan incorporating the recommendations contained in the Report. The Management Plan shall be delivered to OTS for review and non-objection no later than five (5) days after approval by the Board. The Board shall make any changes to the Management Plan required by OTS within fifteen (15) days after receipt. Thereafter, the Board shall adopt the Management Plan and shall ensure that the Association adheres to it.

## **VI. LIQUIDITY**

A. Within fifteen (15) days, the Board shall review and approve a written comprehensive Liquidity Plan. The Liquidity Plan shall contain specific Board strategies for ensuring that the Association maintains adequate short-term and long-term liquidity to withstand any anticipated or extraordinary demand against its funding base. At a minimum, the Liquidity Plan must include: (1) a cash flow analysis that includes reasonable assumptions, identifies anticipated funding needs and the sources of liquidity to meet those needs, considers the level and maturity of brokered deposits, and addresses potential contingent liabilities; and (2) identification of alternative funding sources to meet extraordinary demands, at a minimum, the selling of assets, obtaining lines of credits from correspondent institutions, recovering charged-off assets, and injecting additional equity capital. Further, the Liquidity Plan shall require provision of regular liquidity reports to the Board and OTS in a frequency required by OTS.

B. The Liquidity Plan shall be delivered to OTS for review and non-objection no later than five (5) days after approval by the Board. The Board shall make any changes to the

Liquidity Plan required by OTS within fifteen (15) days after receipt. Thereafter, the Board shall adopt the Liquidity Plan and shall ensure that the Association adheres to it. Any request to modify the Liquidity Plan shall be submitted to OTS for review and written non-objection at least thirty (30) days prior to the proposed date to implement any such modification.

## **VII. VARIANCE REPORTS**

A. Within thirty (30) days after the close of each quarter starting with the first full quarter after the effective date of this Order, the Association shall prepare quarterly variance reports on the Association's compliance with the Business Plan, Classified Asset Reduction Plan, and Liquidity Plan (hereafter Plans). Such variance reports shall detail actual operating results versus projected results and shall include detailed explanations of any material deviations from the Plan(s) with a description of the specific corrective actions or measures that have been implemented or are proposed to address each such deviation. The Board shall promptly review each variance report and shall discuss the Association's compliance with the approved Plans. The Board's review of the variance reports and evaluation of the Association's compliance with the Plans shall be thoroughly documented in the Board meeting minutes.

B. The Board shall provide OTS with a copy of the Association's quarterly variance reports and the Board meeting minutes detailing the Board's review of the variance reports, including the identification of any corrective actions adopted by the Board, and the Board's evaluation and assessment of the Association's compliance with the Plans within ten (10) days after the date of the Board meeting at which the Board's review was conducted.

## **VIII. COMPLIANCE MANAGEMENT**

Within ninety (90) days, the Association shall take the following steps to strengthen its compliance management program:

A. Define and delineate the compliance authority, responsibility, and accountability of the compliance officer, retail operations manager, and members of the Association Compliance Committee.

B. Provide the Association's compliance officer with sufficient dedicated staff and other resources to permit the compliance officer to perform all responsibilities in a timely and effective manner.

C. Provide a system for the collection, dissemination, and tracking of internal audit, quality control, and self-assessment review findings and corrective actions.

D. Clarify the role of the Association Compliance Committee composed of representatives from all operating areas of the Association and the compliance department to facilitate communication and coordination on compliance-related matters among the units.

E. Update policies and procedures to reflect current practices and regulatory requirements and instituting a system to review and update them on a regular basis going forward.

F. Ensure compliance with all applicable consumer and other compliance laws and regulations<sup>1</sup> (Compliance Laws and Regulations), including:

1. Providing training to relevant staff in Compliance Laws and Regulations and establishing an ongoing training program that reinforces staffs' continuing awareness of those requirements; and

2. Reviewing loans on an ongoing basis for compliance with Compliance Laws and Regulations.

---

<sup>1</sup> The term "consumer and other compliance laws and regulations" means all laws and regulations identified, referenced, or discussed in Section 1100 (Compliance Oversight Examination Program) of the OTS Examination Handbook.

## **IX. OPERATING RESTRICTIONS**

A. Growth Restriction. Effective immediately, the Association shall comply with the requirements of OTS Regulatory Bulletin 3b (RB 3b), and except upon receipt of the prior written approval of OTS, shall not increase its total assets during any quarter, beginning with the quarter ending March 31, 2009, in excess of an amount equal to the net interest credited on deposit liabilities during the quarter.

B. Management Changes. Effective immediately, the Association shall comply with the requirements set forth in 12 CFR Part 563, Subpart H.

C. Employment Contracts and Compensation Arrangements. Effective immediately, the Association shall not enter into, renew, extend or revise any contractual arrangement relating to compensation or benefits for any Senior Executive Officer or director of the Association, unless it first provides OTS with not less than thirty (30) days prior written notice of the proposed transaction. The notice to OTS shall include a copy of the proposed employment contract or compensation arrangement or a detailed, written description of the compensation arrangement to be offered to such officer or director, including all benefits and perquisites. The Board shall ensure that any contract, agreement or arrangement submitted to OTS fully complies with the requirements of 12 CFR Part 359, 12 CFR §§ 563.39 and 563.161(b), and 12 CFR Part 570 – Appendix A.

D. Severance and Indemnification Payments. Effective immediately, the Association shall not make any golden parachute payment, as that term is defined in 12 CFR § 359.1(f), or any prohibited indemnification payment, as that term is defined at 12 CFR § 359.1(l), unless, with respect to each such payment, the Association has complied with the requirements of 12 CFR Part 359 and, as to indemnification payments, 12 CFR § 545.121.

E. Capital Distributions. Effective immediately, the Association shall pay no dividends or make any other capital distributions, as that term is defined in 12 CFR § 563.141, without receiving the prior written approval of OTS. The Association's written request for such approval should be submitted to OTS at least forty-five (45) days prior to the anticipated date of the proposed dividend payment or distribution of capital.

F. Contracts Outside of the Ordinary Course of Business. Effective immediately, the Association and its subsidiaries shall not enter into any third-party contracts outside of the normal course of business without prior written non-objection of OTS. To seek such non-objection, the Association shall provide thirty (30) days advance written notice to OTS of any such proposed contract. At a minimum, such notice shall set forth the Association's reasons for seeking the contract and shall transmit a copy of the proposed contract pursuant to OTS Examination Handbook § 310 and OTS Thrift Bulletin 82a.

**X. BOARD COMPLIANCE COMMITTEE**

A. Within thirty (30) days, the Board shall appoint a committee (Regulatory Compliance Committee) comprising three (3) or more non-employee directors to monitor and coordinate the Association's compliance with the provisions of this Order.

B. Within thirty (30) days, and after the end of each calendar quarter, beginning with the quarter ending March 31, 2009, the Regulatory Compliance Committee shall submit a written progress report to the Board detailing the actions taken to comply with each provision of this Order and the results of all such actions. The Board's consideration of the Regulatory Compliance Committee's progress report for the period, including comments and questions concerning the progress report and additional actions taken or directed by the Board to comply with each provision of the Order, shall be reflected in the minutes of the Board's meetings.

C. Within forty-five (45) days after the end of each calendar quarter beginning with the quarter ending March 31, 2009, a copy of the progress report for the quarter with any revisions or comments by the Board shall be provided to OTS.

D. Nothing contained herein shall diminish the responsibility of the entire Board to ensure the Association's compliance with the provisions of this Order.

**XI. EFFECTIVE DATE, INCORPORATION OF STIPULATION**

This Order is effective on the Effective Date as shown on the first page. The Stipulation is made a part hereof and is incorporated herein by this reference.

**XII. DURATION**

This Order shall remain in effect until terminated, modified or suspended, by written notice of such action by OTS, acting by and through its authorized representatives.

**XIII. TIME CALCULATIONS**

A. Calculation of time limitations for compliance with the terms of this Order run from the Effective Date and shall be based on calendar days, unless otherwise noted.

B. The Regional Director, or an OTS authorized representative, may extend any of the deadlines set forth in the provisions of this Order upon written request by the Association that includes reasons in support for any such extension. Any OTS extension shall be made in writing.

**XIV. SUBMISSIONS AND NOTICES**

A. All submissions, including progress reports, to OTS that are required by or contemplated by this Order shall be submitted within the specified timeframes.

B. Except as otherwise provided herein, all submissions, requests, communications, consents or other documents relating to this Order shall be in writing and sent by first-class U.S mail (or by reputable overnight carrier, electronic facsimile transmission or hand delivery by messenger) addressed as follows:

To OTS:

C.K. Lee, Regional Director  
Office of Thrift Supervision, Western Region  
225 E. John Carpenter Freeway, Suite 500  
Irving, TX 75062-2326

With a Copy to:

Nicholas J. Dyer, Assistant Director  
Office of Thrift Supervision, Western Region  
2001 Junipero Serra Boulevard, Suite 650  
Daly City, CA 94014-3897

To the Association:

Laurence L. Wang, Chairman of the Board  
Gateway Bank, a F.S.B.  
2336 Merced Street  
San Leandro, CA 94577

**XV. NO VIOLATIONS AUTHORIZED**

Nothing in this Order or the Stipulation shall be construed as allowing the Association, its Board, officers or employees to violate any law, rule, or regulation.

**IT IS SO ORDERED.**

**OFFICE OF THRIFT SUPERVISION**

By: \_\_\_\_\_/s/  
C.K. Lee, Regional Director  
Western Region

Date: See Effective Date on page 1

**UNITED STATES OF AMERICA**  
**Before the**  
**OFFICE OF THRIFT SUPERVISION**

In the Matter of	)	
	)	Order No.: WN-09-007
	)	
<b>GATEWAY BANK, A F.S.B.,</b>	)	Effective Date: April 24, 2009
	)	
San Francisco, California	)	
OTS Docket No. 08857	)	
	)	

**STIPULATION AND CONSENT TO**  
**ISSUANCE OF ORDER TO CEASE AND DESIST**

**WHEREAS**, the Office of Thrift Supervision (OTS), acting by and through its Regional Director for the Western Region (Regional Director), and based upon information derived from the exercise of its regulatory and supervisory responsibilities, has informed Gateway Bank, a F.S.B., San Francisco, California, OTS Docket No. 08857 (Association), that OTS is of the opinion that grounds exist to initiate an administrative proceeding against the Association pursuant to 12 USC § 1818(b);

**WHEREAS**, the Regional Director, pursuant to delegated authority, is authorized to issue Orders to Cease and Desist where a savings association has consented to the issuance of an order; and

**WHEREAS**, the Association desires to cooperate with OTS to avoid the time and expense of such administrative cease and desist proceeding by entering into this Stipulation and Consent to the Issuance of Order to Cease and Desist (Stipulation) and, without admitting or

denying that such grounds exist, but only admitting the statements and conclusions in Paragraph 1 below concerning Jurisdiction, hereby stipulates and agrees to the following terms:

**1. Jurisdiction.**

a. The Association is a “savings association” within the meaning of 12 USC § 1813(b) and 12 USC § 1462(4). Accordingly, the Association is “an insured depository institution” as that term is defined in 12 USC § 1813(c); and

b. Pursuant to 12 USC § 1813(q), the Director of OTS is the “appropriate Federal banking agency” with jurisdiction to maintain an administrative enforcement proceeding against a savings association. Therefore, the Association is subject to the authority of OTS to initiate and maintain an administrative cease and desist proceeding against it pursuant to 12 USC § 1818(b).

**2. OTS Findings of Fact.**

Based on the Report of Examination transmitted to the Association on February 5, 2009, OTS finds that the Association has engaged in unsafe and unsound banking practices which have resulted in the current high level of classified assets and poor earnings.

**3. Consent.**

The Association consents to the issuance by OTS of the accompanying Order to Cease and Desist (Order). The Association further agrees to comply with the terms of the Order upon the Effective Date of the Order and stipulates that the Order complies with all requirements of law.

**4. Finality.**

The Order is issued by OTS under 12 USC § 1818(b) and upon the Effective Date it shall be a final order, effective and fully enforceable by OTS under the provisions of 12 USC § 1818(i).

**5. Waivers.**

The Association waives the following:

- a. The right to be served with a written notice of OTS's charges against it as provided by 12 USC § 1818(b) and 12 CFR Part 509;
- b. The right to an administrative hearing of OTS's charges as provided by 12 USC § 1818(b) and 12 CFR Part 509;
- c. The right to seek judicial review of the Order, including, without limitation, any such right provided by 12 USC § 1818(h), or otherwise to challenge the validity of the Order; and
- d. Any and all claims against OTS, including its employees and agents, and any other governmental entity for the award of fees, costs, or expenses related to this OTS enforcement matter and/or the Order, whether arising under common law, federal statutes or otherwise.

**6. OTS Authority Not Affected.**

Nothing in this Stipulation or accompanying Order shall inhibit, estop, bar or otherwise prevent OTS from taking any other action affecting the Association if at any time OTS deems it appropriate to do so to fulfill the responsibilities placed upon OTS by law.

**7. Other Governmental Actions Not Affected.**

The Association acknowledges and agrees that its consent to the issuance of the Order is solely for the purpose of resolving the matters addressed herein, consistent with Paragraph 6 above, and does not otherwise release, discharge, compromise, settle, dismiss, resolve, or in any way affect any actions, charges against, or liability of the Association that arise pursuant to this action or otherwise, and that may be or have been brought by any governmental entity other than OTS.

**8. Miscellaneous.**

a. The laws of the United States of America shall govern the construction and validity of this Stipulation and of the Order;

b. If any provision of this Stipulation and/or the Order is ruled to be invalid, illegal, or unenforceable by the decision of any Court of competent jurisdiction, the validity, legality, and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby, unless the Regional Director in his or her sole discretion determines otherwise;

c. All references to OTS in this Stipulation and the Order shall also mean any of the OTS's predecessors, successors, and assigns;

d. The section and paragraph headings in this Stipulation and the Order are for convenience only and shall not affect the interpretation of this Stipulation or the Order;

e. The terms of this Stipulation and of the Order represent the final agreement of the parties with respect to the subject matters thereof, and constitute the sole agreement of the parties with respect to such subject matters; and

f. The Stipulation and Order shall remain in effect until terminated, modified, or suspended in writing by OTS, acting through its Regional Director or other authorized representative.

**9. Signature of Directors/Board Resolution.**

Each Director signing this Stipulation attests that he or she voted in favor of a Board Resolution authorizing the consent of the Association to the issuance of the Order and the execution of the Stipulation. This Stipulation may be executed in counterparts by the directors after approval of execution of the Stipulation at a duly called Board meeting.

**WHEREFORE**, the Association, by its directors, executes this Stipulation.

Accepted by:

**GATEWAY BANK, A F.S.B.**  
**San Francisco, California**

**OFFICE OF THRIFT SUPERVISION**

By:                   /s/                    
Laurence L. Wang  
Chairman of the Board

By:                   /s/                    
C.K. Lee, Regional Director  
Western Region

Date: See Effective Date on page 1

                  /s/                    
James E. Baxter, II, Director

                  /s/                    
JoAnne Fabian, Director

                  /s/                    
Laurence C. Fentriss, Director

                  /s/                    
George Masa, Director

                  /s/                    
Poppi J. Metaxas, Director

                  /s/                    
Jessica L. Wang, Director